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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2014. As requested by the Executive Board in its decision 2014/21, this report includes information regarding financial losses identified by investigations as well as the manner and amount of recovery. Also, this report continues to address Board requests noted in prior years' decisions, such as: the titles of all internal audit reports issued during the year and ratings received (decision 2013/24), significant issues related to the public disclosure of internal audit reports (decision 2012/18), and cases of fraud and action taken in cases of misconduct (decision 2011/22). The management response to this report is presented separately (decision 2006/13) and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit Advisory Committee.

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Annual report of the Audit Advisory Committee for the calendar year 2014

Introduction

1. The UNDP Office of Audit and Investigations (OAI) submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2014.

2. As requested by the Executive Board in its decision 2014/21, this report includes information regarding financial losses identified by investigation as well as the manner and amount of recovery. Also, this report continues to address Board requests noted in prior years' decisions, such as: the titles of all internal audit reports issued during the year and ratings received (decision 2013/24), significant issues related to the public disclosure of internal audit reports (decision 2012/18), and cases of fraud and action taken in cases of misconduct (decision 2011/22). The management response to this report is presented separately (decision 2006/13). The annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. OAI aims to provide UNDP with an effective system of independent and objective internal oversight designed to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of OAI are defined in the charter approved by the Administrator.

4. As required by the international internal auditing standards, OAI hereby confirms its organizational independence. In 2014, OAI was free from interference in determining its audit scope, performing its work and communicating its results.

5. OAI has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys performed in 2014 showed that clients were satisfied with the conduct of audits. Periodic external quality assurance reviews are done every five years. The second review for investigations was conducted in the fourth quarter of 2014 and the results will be available in 2015. The second review for internal audit done in 2012 confirmed the continued general conformance of OAI with the international standards for the professional practice of internal auditing. The third external quality assurance review for internal audit is due in 2017. In the fourth quarter of 2014, OAI undertook an internal quality review of its audit function, the results of which will be available in 2015.

6. Throughout 2014, OAI received strong support from UNDP senior management. The OAI Director's continued participation as an observer in meetings of the Organizational Performance Group enabled him to give advice on control and accountability aspects of new policies and to comment on any emerging potential risk to UNDP. OAI also had meetings with the Bureau of Management and regional bureaux to discuss key and recurring audit and investigation issues. In addition, OAI participated in meetings with donors to strengthen cooperation with counterparts in other organizations.

Independent external oversight

7. The Audit Advisory Committee continued to provide advice to the Administrator to promote the effectiveness of UNDP internal audit and investigation functions. In 2014, the Committee reviewed the OAI 2014 annual work plan and its implementation through quarterly progress reports. Also, the Committee reviewed OAI audit and investigation activities, noted in the 2013 annual report that was presented by OAI to the Executive Board in 2014. In all its periodic meetings in 2014, the Committee held private sessions with the Director of OAI.

8. UNDP external auditors (United Nations Board of Auditors) continued to rely on OAI audits as well as its quality assurance review processes for third-party audits of projects implemented by non-governmental organizations and national governments (known as NGO/NIM projects).

Basis for providing independent assurance to the Administrator

9. For purposes of providing assurance on governance, risk management and control systems, the annual work plan of OAI for 2014 covered an appropriate mix of business units, functions and activities at the headquarters, regional and country levels, directly implemented (DIM) projects, and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Upon endorsement of the Audit Advisory Committee, the Administrator approved the annual work plan.

Risk-based planning

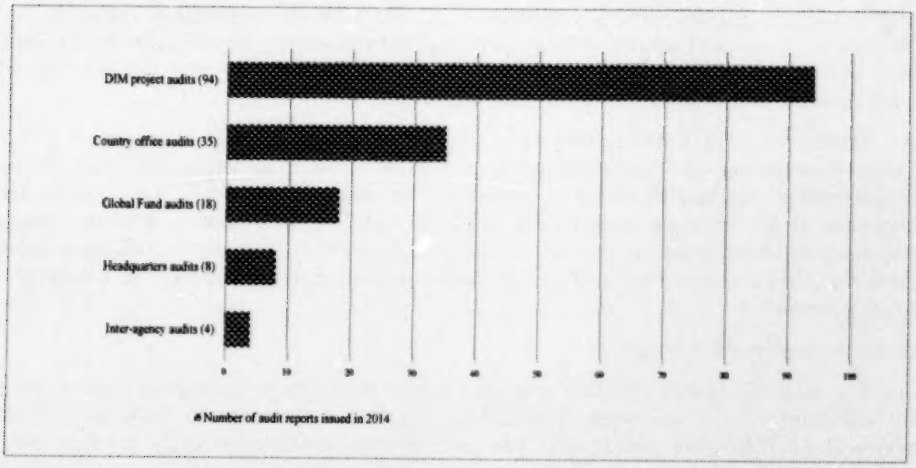
10. OAI formulated the 2014 audit plan after conducting a risk assessment of its auditable areas. The office undertook the planning process in a participative manner, holding a series of discussions with senior management, concerned bureaux and other stakeholders. It also consulted the Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

Audit reports issued

11. In 2014, OAI issued 159 audit reports, comprising: eight headquarters audits, 35 country office audits (including four which were performed remotely, mostly due to security reasons), 18 Global Fund grant audits (including two consolidated reports), 94 DIM project audits (91 at country office level and three at headquarters level), and four inter-agency audits (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles of all internal audit reports issued in 2014 and their ratings.

12. Considering that most of the audit reports issued in 2014 covered activities of UNDP offices during 2013, the audit results generally reflected the status of programmes and operations in 2013. The 137 audits at the country level covered about $2.3 billion (50 per cent) of some $4.6 billion of UNDP 2013 field-level expenditures. An additional $1.92 billion in expenditures were covered by third-party audits of NGO/NIM projects.

Figure 1. Number and type of audit reports issued in 2014

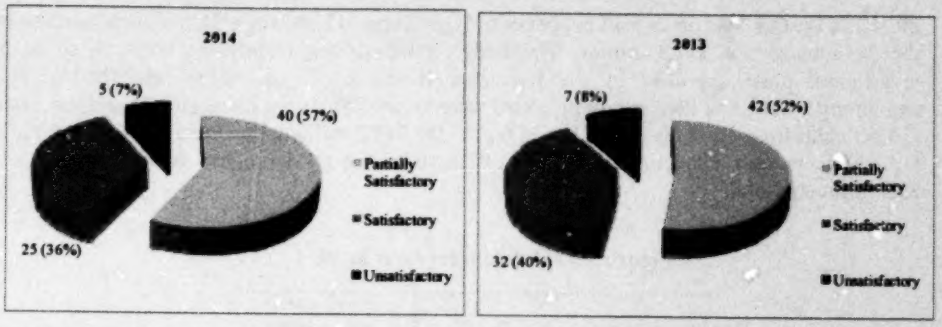

DIM project audits (94)
Country office audits (35)
Global Fund audits (18)
Headquarters audits (8)
Inter-agency audits (4)
Number of audit reports issued in 2014

Audit ratings

13. Based on audit results, OAI assigns an overall audit rating for the majority of its reports in an effort to assess governance, risk-management and control processes. Exceptions include follow-up audits, solely financial audits of DIM projects performed by audit firms on behalf of OAI, consolidated reports on several audits, and other audits with restricted scope and objectives.

14. Of the 159 reports, 89 did not contain an overall rating. Of the remaining 70 reports, 25 reports (36 per cent) had a 'satisfactory' rating; 40 reports (57 per cent) a 'partially satisfactory' rating; and five reports (7 per cent) an 'unsatisfactory' rating (see figure 2). The distribution of audit ratings in 2014 is comparable to that in 2013. The reports with an 'unsatisfactory' rating pertained to one headquarters audit, three country office audits, and one Global Fund audit.

Figure 2. Comparison of audit ratings (2014 versus 2013)



15. For DIM projects, there are two types of audits: (a) one entails only a financial audit (encompassing statements of project expenditure, fixed assets and cash); and (b) the other combines both financial audit and audit of internal control systems. All financial audits by audit firms result in an audit opinion; those that include audit of internal control systems have, in addition to the audit opinion, an OAI-defined audit rating. Thus, for the total of 92 DIM audits in 2014, the audit firms issued 72 unqualified and 18 qualified opinions and two disclaimers of opinion. The net financial impact for the projects with qualified opinions and disclaimers of opinion was $6.9 million (1.2 per cent of the total audited expenditure). The 64 audits for statements of fixed assets resulted in 56 unqualified, five qualified and one adverse opinion and two disclaimers of opinion. The net financial impact of those other than unqualified opinions was $0.9 million.

II. Disclosure of internal audit reports

16. Pursuant to Executive Board decision 2012/18, UNDP makes public all OAI audit reports, while ensuring that the integrity and quality of information disclosed is maintained through OAI due diligence and quality assurance processes. Also, OAI continues to share final reports with specific Member States when they contain findings related to them, giving them three weeks to review and provide comments, thereby respecting the need to protect information contained in audits prior to their publication.

17. In 2014, UNDP publicly disclosed 173 internal audit reports, of which nine were partially redacted because they contained sensitive information on safety and security. There were 3,715 visits to the disclosure webpage (http://audit-public-disclosure.undp.org/), of which 2,708 were 'unique' visitors, meaning that subsequent visits were not counted.

18. Apart from publicly disclosed reports, in 2014, OAI received requests from the Governments of Canada, Spain and Sweden to access three reports issued before 1 December 2012. In accordance with decision 2011/23, there was no request received from any organization not covered by this Board decision (not a Member State, donor intergovernmental organization or the Global Fund).

III. Staffing and budget

19. As of 31 December 2014, OAI had 80 approved posts (excluding four fully funded junior professional officers) compared to 79 approved posts in 2013. One post was established in 2014 to assist in managing the audit of DIM projects in the East and Southern Africa region. The post was funded on the principle of cost recovery from DIM projects audited in that sub-region. Of the 80 posts, 75 posts were encumbered and five were vacant (two audit specialists and three administrative associates). Recruitment for seven new investigator posts was completed in 2014.

20. In 2014, OAI had an overall budget of $19.3 million, which was a $1.5 million increase over the 2013 budget of $17.8 million. The budget increase was mainly the result of seven new investigator posts approved by the Executive Board in August 2013 (DP/2014/16). Funds amounting to $13.5 million (or 70 per cent) were secured from regular resources and the balance (30 per cent) from other resources. In addition to the $19.3 million, the direct costs for the audit of DIM projects were charged to the budget of each of the DIM projects audited, amounting to $1.4 million in total.

Figure 3. OAI resources level in 2014

	(millions of United States dollars)
Audit	11.4
Investigations	5.7
Management and support	2.1
Audit Advisory Committee	0.1
Total	**19.3***

OAI had a planned budget of $19.1 million but received $19.3 million. The difference was due to staff costs.

Impact of resources on mandate (decision 2014/21)

21. The additional resources made available by UNDP management to OAI contributed to the strengthening of internal audit and investigation functions in UNDP. As noted in this report, OAI was able to effectively carry out its planned audits as well as necessary investigation activities in 2014.

22. Specifically, the additional investigator posts played an essential role in increasing the number of investigation reports issued. In 2014, 59 investigation reports were issued, which is more than the yearly number of investigation reports issued during previous years and represents an increase of 20 per cent over the total number of investigation reports issued in 2013 (49 investigation reports). These additional resources also allowed OAI to successfully implement its proactive investigation model, and to carry out its first proactive investigation mission and its first 'intelligence-led' proactive investigation mission in 2014. Also, during 2014, OAI was able to commence giving regular briefings and reports on 'lessons learned from investigations' to regional bureaux, country offices and other relevant business units.

IV. Significant internal audit results

A. Headquarters audits

23. The eight headquarters audits pertained to two headquarters business units and six corporate functions.

24. Altogether, reports on audits of the UNDP Global Shared Service Centre, United Nations Capital Development Fund headquarters, information and communications technology of UN-Volunteers, UNDP enterprise risk management, UNDP Atlas system, leave management system, fast-track policies and procedures, and direct budget support in one country office resulted in 43 recommendations, of which 13 (30 per cent) were ranked high priority.

25. The audit of UNDP enterprise risk management highlighted the need to strengthen the organization's risk management cycle at all levels, and redesign its risk management policy, tools and practices in line with lessons learned, best practices and the changing business model of UNDP. The audit of the leave management system noted the lack of application controls in relation to leave entry and adjustments. The audit of the UNDP Global Shared Service Centre recommended the enhancement and documentation of risk management activities based on a regularly conducted risk analysis. The recommendations from the audit of the UNDP Atlas system aimed to improve access rights and vulnerabilities of the system's Internet-facing portals. The audit of UN-Volunteers information and communications technology noted inefficiencies resulting from limited systems' integration, thereby highlighting the need for UN-Volunteers to align its information and communication technology strategy to that of UNDP.

26. The audit of United Nations Capital Development Fund headquarters highlighted the need to reassess the Fund's organizational structure by setting up regional offices, providing clear guidance on roles and responsibilities of various units and individual staff members, and by using the UNDP Global Shared Service Centre. It also recommended improving policies governing its business processes and introducing enterprise risk management.

B. Country office audits

27. The 35 country office audit reports issued in 2014 included 30 audits of general scope and five audits of specific office functions (asset management, general administration management, human resources management, information and communications management, and oversight of a monitoring agent). Altogether, these audits resulted in 280 recommendations (see figure 4), the majority (55 per cent) of which were in the following areas (described below are issues noted in at least six offices):

(a) *procurement*, such as weak procurement planning practices (six offices), non-submission to procurement committees (seven offices), deficiencies in use of the individual contract modality, for example: inadequate competitive process, lack of reference checks or performance evaluations, and the hiring of individual contractors to perform core functions (10 offices);

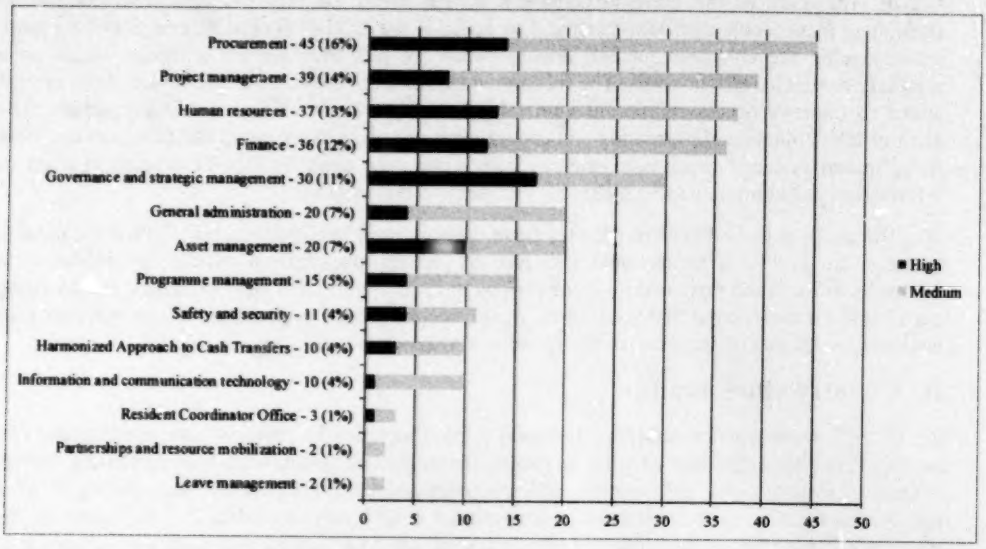
(b) *project management*, such as capacity/comparative assessment of implementing partners or responsible parties not done (seven offices);

(c) *human resources*, such as weaknesses in recruitment, for example: governments performing selection without UNDP support, lack of documentation, recruitment of service contractors without work permits and use of service contracts (nine offices), and mandatory training not completed (10 offices); and

(d) *finance*, such as management of advances, for example, long outstanding advances and incorrect recording of advances (seven offices).

28. Of the 280 recommendations, 30 were meant to address deficiencies in governance and strategic management, such as implementation of strategies to improve financial sustainability, ensuring functions and duties are adequately segregated, follow-up up to outstanding government local office costs contributions strengthening internal controls by aligning them with the corporate internal control framework, and addressing weaknesses in the monitoring function through correct formulation of indicators, baselines and targets. Seventeen (or 57 per cent) of the 30 recommendations were rated high priority.

Figure 4. Distribution and prioritization of country office audit recommendations in 2014 reports
(Total recommendations: 280)



Performance auditing

29. In 2014, OAI piloted the performance audit approach, accompanied by two training sessions for a small group of audit staff. The performance audit approach entails reviewing systems and processes for effectiveness and efficiency, and assessing governance, risk management and controls to ensure achievement of UNDP strategic objectives. Four pilot performance audits were done: (a) two performance audits of a project and a specific UNDP-wide process; and (b) two country office audits with elements of a performance audit approach. The reports for the two country office audits were issued in 2014 and the other two will be issued in 2015.

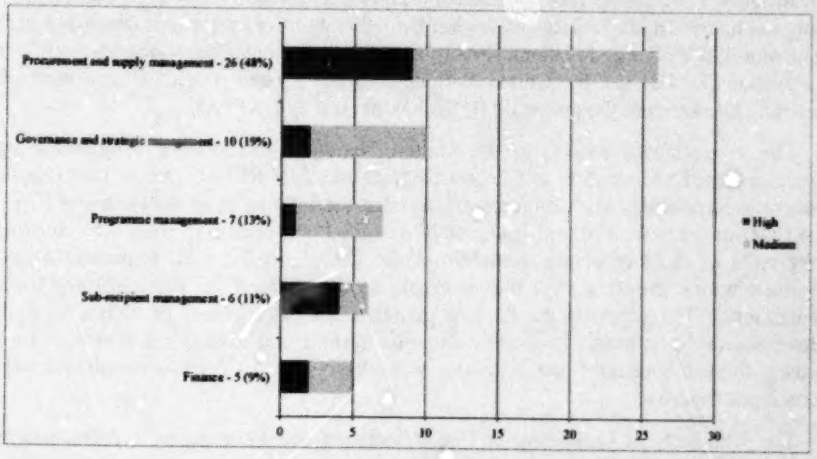
30. For one of the country office audits, the performance audit elements focused on the review of the effectiveness of monitoring practices. For the second, the performance audit elements covered a range of new initiatives that were piloted by the office. The audit aimed to assess whether the country office had culled the benefits from the pilot initiatives and had adequately drawn and disseminated its lessons learned. In both cases, the effectiveness of practices reviewed was assessed as satisfactory.

C. Global Fund audits

31. In 2014, a total of 18 reports were issued pertaining to Global Fund grants, 16 relating to grants managed by UNDP as principal recipient and two separate consolidated reports on various audits of UNDP country offices as principal recipients and as sub-recipients of Global Fund grants. Of the 16 audit reports, 13 covered the management of 31 Global Fund grants in 13 country offices (four in Africa, four in the Arab States, three in Europe and the Commonwealth of Independent States and one in Latin America). Three of the 16 audit reports were purely financial audits of three Global Fund grants in the Asia and the Pacific region; they were performed by audit firms on behalf of OAI.

32. Except for the consolidated reports, the 16 audit reports contained 54 recommendations (see figure 5), the majority (67 per cent) of which were in the areas of: (a) procurement and supply management, such as weak controls over physical inventory, and storage and quality assurance of health products; and (b) governance and strategic management, such as staffing of key posts and compliance with contracting policies and procedures.

Figure 5. Distribution and prioritization of Global Fund audit recommendations in 2014 reports
(Total recommendations: 54)

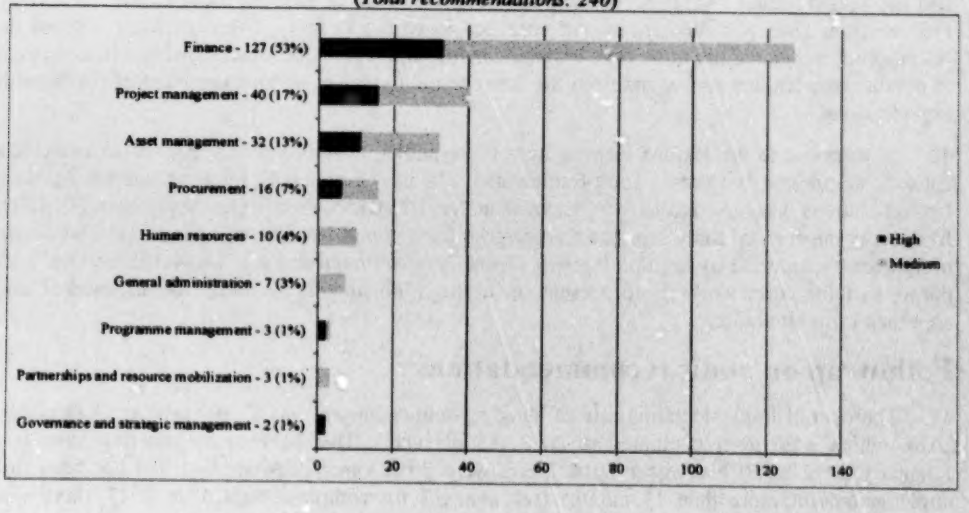


D. Project audits

33. Projects directly implemented by UNDP may be reviewed as part of the audit of a country office or other business unit or may be audited separately, especially if the project amount is significant. In 2014, 94 DIM projects were audited separately. The audited expenditure amounted to $602 million.

34. DIM audits resulted in 240 recommendations (see figure 6), the majority (52 per cent) of which were in the area of finance, such as inaccurate recording of project expenditures in the combined delivery report and lack of supporting documents. DIM audits are essentially a financial audit of expenditure charged to projects and focus on validating financial transactions. Consequently, the majority of ensuing audit recommendations are inherently in the area of finance.

Figure 6. Distribution and prioritization of DIM audit recommendations in 2014 reports
(Total recommendations: 240)



E. Inter-agency audits

35. In 2014, OAI issued four inter-agency reports as a result of joint or coordinated audit work among the internal audit services of several United Nations organizations (the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Children's Fund (UNICEF) and the United Nations Industrial Development Organization (UNIDO), as well as UNFPA).

36. The consolidated report on the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD) Quick Start Programme in the Democratic Republic of the Congo concluded that the internal control systems of FAO and UNDP UN-REDD projects were sound, adequately designed and operating well. The consolidated report on the audit of the Democratic Republic of the Congo pooled fund summarized key issues and recommendations reported by the internal audit services of participating United Nations organizations. OAI reported insufficient guidance on engagement of NGOs in a humanitarian context, absence of a monitoring and evaluation system, and inadequate assurance for harmonized approach to cash transfers, that is. issues with the quality of micro-assessments and spot check reports in the country.

37. The joint audit of Delivering as One in Pakistan noted competing coordination processes for development and humanitarian mechanisms; incomplete implementation of the management and accountability framework, which is essential to strengthen the resident coordinator system in the country; quality issues in the monitoring framework for strategic priority areas; and lack of a strategy to harmonize business processes and procedures. The audit of the administrative agent function of the Common Humanitarian Fund for Somalia concluded that the Multi-Partner Trust Fund Office's performance of that function was satisfactory.

38. The reports on the three audits of inter-agency programmes and systems conducted in 2014 will be issued in 2015 and include: (a) Delivering as One in Malawi; (b) UNDP audit report on UN-REDD; and (c) inter-agency audit report on UN-REDD, covering inter-agency collaboration and coordination of the UN-REDD Global Programme, involving UNDP, FAO and the United Nations Environment Programme.

Lessons from inter-agency audits (decision 2011/22)

39. Since 2009, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services (UN-RIAS), OAI has participated in inter-agency audits and has issued a total of 13 inter-agency audit reports covering selected multi-partner trust funds, Delivering as One, and the harmonized approach to cash transfers. The experience showed that inter-agency audits require more time to plan, conduct and report than others, owing to the necessity to obtain consultations and inputs from the internal audit services and management of participating organizations.

40. In response to the lessons learned from these audits, UNDP and UNFPA led an exercise to consolidate previously existing audit frameworks. The new Framework for Joint Internal Audits of United Nations Joint Activities was adopted at the UN-RIAS meeting in Se¡ tember 2014. The framework superseded three separate frameworks for: (a) multi-donor trust funds; (b) coordinated programmes supported by multiple agencies (joint programmes); and (c) "Delivering as One". The purpose of the frameworks is to present, in a single document, the basis for an internal audit approach for joint audits.

V. Follow-up on audit recommendations

41. The overall implementation rate of audit recommendations was 81 per cent at 31 December 2014, which was lower compared to 2013 (88 per cent). This covered all reports issued from 1 January 2012 to 30 November 2014. There were 20 recommendations that had not been fully implemented for more than 18 months (see annex 3 for complete listing). In 2013, there were

22 recommendations. The total number remains minimal, given that 20 recommendations represented 1 per cent of the total recommendations issued since 2012.

42. Of the 20 recommendations, seven (35 per cent) were ranked high priority. The reason for the delayed implementation of these 20 recommendations was the recommendations' complexity, which required more actions (85 per cent) or the involvement of external entities, such as other United Nations organizations (15 per cent). Of the 20, two were outstanding for over 36 months, pertaining to unspent donor contributions on completed projects not reconciled and settled, and delays in communicating targets for Government contributions towards local office costs to regional bureaux and country offices.

VI. Review of audits of projects executed by non-governmental organizations and/or national governments

43. A total of 801 NGO/NIM projects were planned for audit in 2014 based on OAI's audit risk assessment. These selected projects had a total expenditure of $1.92 billion, representing 70 per cent of the $2.73 billion of NGO/NIM project expenses for fiscal year 2013. The audits were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

44. By 31 December 2014, OAI received 871 audit reports for 798 projects (or 99.6 per cent of the 801 projects), with a total of $1.91 billion of expenses for fiscal year 2013. Two of the offices that planned to conduct NGO/NIM audits in 2014 were unable to complete their submission as a result of the political situation in one country and delays by the government auditors in completing the audit in another country.

OAI review results

45. Of the 871 audit reports received, OAI selected 488 for in-depth review. The sample, representing 89 per cent of the audit expenses (or $1.71 billion), included all reports with modified opinions (qualified and adverse opinion and disclaimer of opinion). OAI reviewed the NGO/NIM audit reports in terms of four aspects:

(a) *Audit opinion and net financial impact.* OAI measured the net financial impact of audit qualifications as a percentage of the reported project expenditure;
(b) *Audit outcome.* OAI reviewed the audit findings and measured the corresponding risks for overall project implementation;
(c) *Audit scope.* OAI reviewed the adequacy of audit coverage vis-à-vis the required audit terms of reference; and
(d) *Audit administration.* OAI reviewed how efficiently and effectively the country office administered the audit.

46. Most (75 per cent) of the UNDP country offices received a satisfactory rating from OAI for audits conducted in 2014 for fiscal year 2013, which was almost similar to the rating for audits conducted in 2013 for fiscal year 2012 (see figure 7). OAI issued review letters to offices drawing their attention to areas requiring improvement, as noted in the NGO/NIM audit reports reviewed.

Figure 7. Results of OAI assessment of the quality of NGO/NIM audit reports

	Overall Rating			
	Fiscal year 2013 (Audits conducted in 2014)		Fiscal year 2012 (Audits conducted in 2013)	
Rating	Number of countries	%	Number of countries	%
Satisfactory	87	75%	84	73%
Partially satisfactory	20	17%	22	19%
Unsatisfactory	9	8%	9	8%
Total country offices	116	100%	115	100%

Key NGO/NIM audit issues and actions taken thereon

47. The NGO/NIM audit reports that were reviewed in detail contained 1,201 issues, with the majority (66 per cent) ranked medium priority. Most of the issues pertained to financial management (46 per cent) compared to 57 per cent for fiscal year 2012. Over the last two audit cycles, there was an 11 per cent decrease in issues in the area of financial management, while the other areas (project progress and rate of delivery, procurement, human resources, management and use of equipment, record keeping systems and controls, and management structure) showed only a slight variance.

48. OAI monitored the actions taken by the country offices to implement the NGO/NIM audit recommendations and noted that, of the 1,201 audit issues, 76 per cent had already been adequately addressed.

Audit opinions and net financial impact

49. The audit results showed that project financial expenses were generally fairly presented on project financial statements. Nonetheless, OAI analysed all the reports with modified opinions and quantified the net financial impact for fiscal year 2013 to be $92 million (4.82 per cent) of the total audited expenses. This was a decrease compared to the $112 million (5.79 per cent) for fiscal year 2012. For fiscal year 2013, the net financial impact mainly pertained to 14 projects in one country ($83 million) because of: lack of or inadequate procurement process ($3 million); unexplained differences between amounts in the combined delivery report and project record amounts ($1 million); and access to project records being denied to auditors ($79 million).

Audit of harmonized approach to cash transfers

50. In 2014, five country offices (Bhutan, Cape Verde, Democratic Republic of the Congo, Indonesia and Tanzania), which follow harmonized-approach-to-cash-transfers procedures, planned the required audits of implementing partners. OAI received 21 audit reports from four of the five country offices. Of the 21 reports, 18 issued an unqualified opinion on the financial statements.

VII. Investigations

Caseload

51. During 2014, OAI opened 299 new cases, a 6 per cent increase compared to 2013 (283 cases). With 179 cases carried over from 2013, the total caseload in 2014 rose to 478, a 7 per cent increase compared to 2013 (447 cases). At the end of 2014, 162 cases were carried over to 2015 (see figure 8), comprising of 14 cases still under assessment and 148 cases still under investigation.

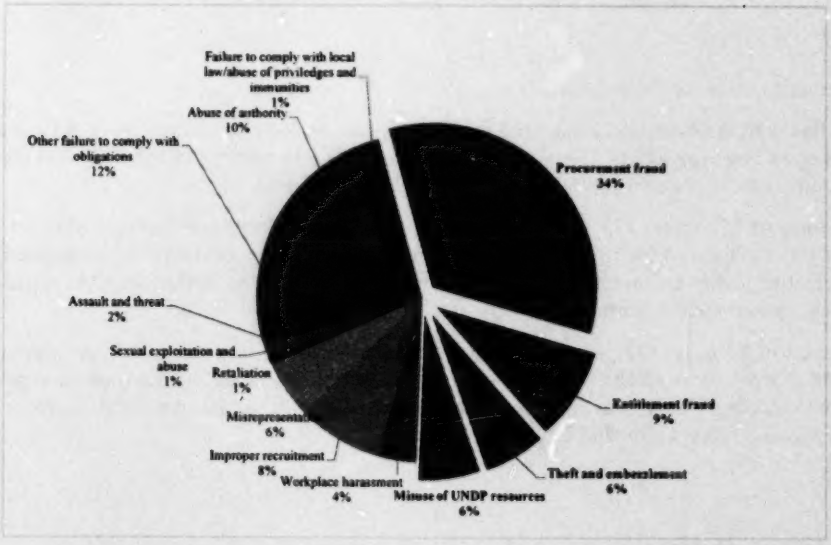
Figure 8. Caseload in 2013 and 2014

Caseload	2013	2014
Carry-over as of 1 January	164	179
Intake during the year	283	299
Total cases during the year	**447**	**478**
Closed (from cases carried over)	119	149
Closed (from intake)	149	167
Total closed	**268**	**316**
Carried forward as of 31 December	179	162

Type of complaints

52. Complaints relating to financial irregularities (procurement fraud, theft and embezzlement, misuse of UNDP resources and entitlements fraud) continued to be the largest category of cases, constituting 55 per cent of the total number of cases handled by OAI in 2014, a slight increase from 2013 (53 per cent) (see figure 9).

Figure 9. Types of complaints received in 2014


Failure to comply with local law/abuse of privileges and immunities 1%
Abuse of authority 10%
Other failure to comply with obligations 12%
Procurement fraud 34%
Assault and threat 2%
Sexual exploitation and abuse 1%
Retaliation 1%
Misrepresentation 6%
Improper recruitment 8%
Workplace harassment 4%
Misuse of UNDP resources 6%
Theft and embezzlement 6%
Entitlement fraud 9%

53. Asia and the Pacific continued to be the region from which OAI received the most complaints in 2014 (94 cases), followed by Africa (88 cases). These two regions alone constituted the majority (over 60 per cent) of total 299 complaints in 2014 (see figure 10).

Figure 10. Cases received in 2014, by location[1]

Processing of cases (decision 2014/21)

54. In line with the Board decision, OAI focused its work in 2014 on closing cases. As a result, of the 478 open cases (including 179 carried over from 2013), 316 were finalized. This was a notable achievement: an 18 per cent increase over 2013 (268 closed cases).

55. A total of 231 cases (73 per cent of the 316 cases finalized) were closed after an initial assessment. Of these, 209 cases were closed either because the evidence of wrongdoing was insufficient to justify an investigation, or the allegations did not fall within the OAI mandate, or the investigation was not warranted.

56. A total of 85 cases (27 per cent of the 316 cases finalized) required a full investigation. Of these, 59 (69 per cent) resulted in an investigation report establishing evidence of misconduct or other wrongdoing. This was another notable achievement: a 20 per cent increase over 49 investigation reports issued in 2013.

[1] RBA: Regional Bureau for Africa; RBAS: Regional Bureau for Arab States; RBAP: Regional Bureau for Asia and the Pacific; RBEC: regional Bureau for Europe and the Commonwealth of Independent States; RBLAC: Regional Bureau for Latin America and the Caribbean.

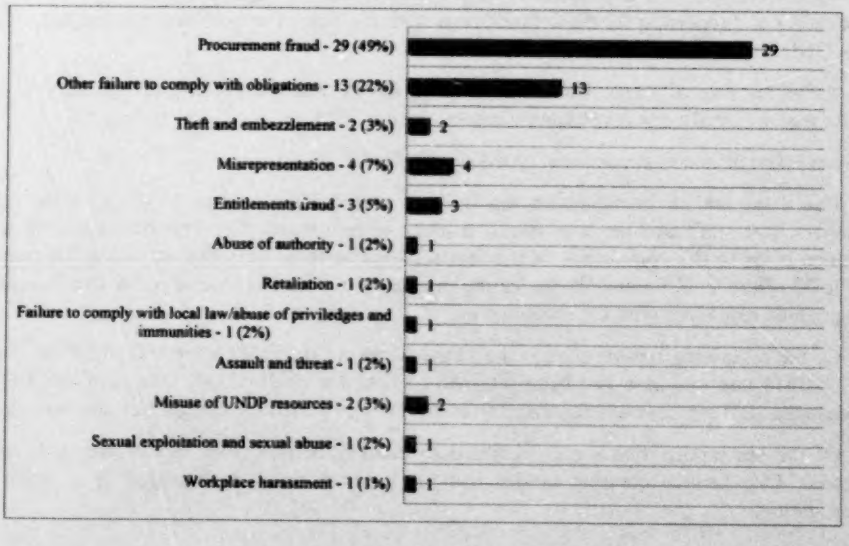
Figure 11. Disposition of cases in 2013 and 2014

Actions taken	Number of cases in 2013	Number of cases in 2014
After assessment		
- Closed, investigation not warranted	172	209
- Referred to other offices within UNDP	23	22
Total	**195**	**231**
After investigation		
Closed (not substantiated)	**24**	**26**
Closed *(substantiated)*		
- Submitted to Legal Support Office	24	26
- Submitted to country offices	15	6
- Submitted to Vendor Review Committee	8	22
- Submitted to other organizations	2	2
- Submitted to other UNDP offices	-	3
- Other investigation reports	-	-
Subtotal *(substantiated)*	**49**	**59**
Total	**73**	**85**
Total cases closed during the year	**268**	**316**
Investigation reports issued	**49**	**59**
Management letters issued	**6**	**16**

Substantiated cases

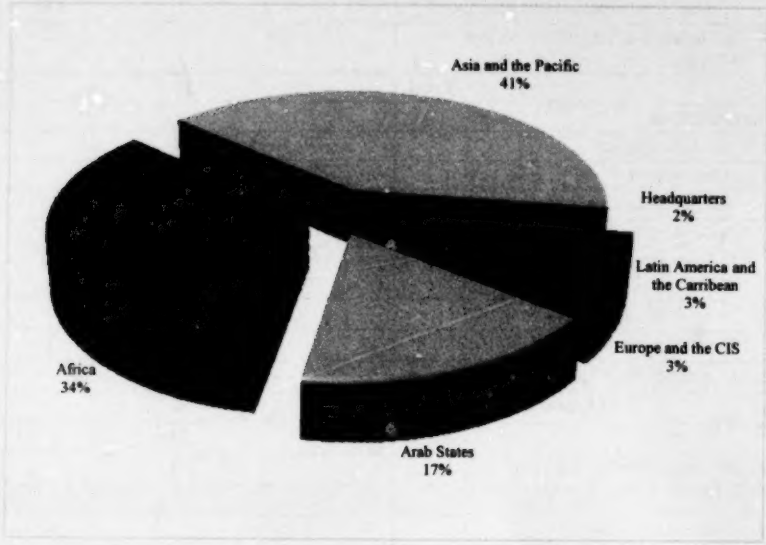
57. The 59 substantiated investigations concerned mainly procurement fraud (49 per cent) and failure to comply with obligations (22 per cent) (see figure 12). See annex 4 for a short description of these cases.

Figure 12. Cases substantiated in 2014 by category



58. The geographical distribution of the 59 substantiated cases showed that 41 per cent occurred in Asia and the Pacific region, 34 per cent in Africa, 17 per cent in the Arab States, and the remaining 8 per cent in the rest of the regions and at headquarters (see figure 13).

Figure 13. Cases substantiated in 2014 by location



Financial losses and recovery thereof (decision 2014/21)

59. The total financial loss that was substantiated in investigation reports from OAI during 2014 amounted to approximately $6.1 million (see annex 4). A total of $5.2 million, representing 85 per cent of $6.1 million, was the result of four investigations involving funds that were provided to the Multi-Partner Trust Fund Office and transferred and implemented by another United Nations organization, which issued contracts to vendors leading to fraud and theft. The investigative body for the other United Nations organization issued reports substantiating the loss, which were endorsed by OAI for the purpose of requesting sanctions against the vendors. The financial accounting and reporting for these funds rests with the other United Nations organization and not with UNDP.

60. As of the date of preparation of this report, UNDP has recovered approximately $10,800 of the total loss identified in investigation reports during 2014.

Actions taken in cases of misconduct (decision 2011/22)

61. Based on the 26 investigation reports sent to the Legal Support Office concerning staff members, one staff member was issued a letter of reprimand. For one staff member who had resigned prior to the completion of the investigation, a letter was placed in his file pursuant to article 72 of the legal framework indicating that he would have been charged with misconduct had he remained employed with the organization.

62. Of the remaining reports sent to the Legal Support Office, 22 were still under review at the end of 2014 and one case had been returned to OAI for clarification. One case was transferred because the staff member had separated from UNDP and joined the United Nations Secretariat.

63. Of the six reports that were submitted to country offices, five service contracts were not renewed. One service contract holder had his contract level downgraded as a result of the investigation.

64. Based on the two investigation reports submitted to the Advisory Panel on Disciplinary Measures concerning United Nations Volunteers, a letter was placed in one volunteer's file indicating that he would have received a letter of censure had he still been serving as a volunteer. The other case was still under review at the end of 2014.

Other investigation reports

65. In 2014, twenty-two investigation reports were submitted to the Vendor Review Committee (the internal technical body tasked with making recommendations to the Chief Procurement Officer about requests for vendor sanctions). Of the 22 reports, one case was settled by the committee and one case was closed without imposition of sanctions. Twenty-one cases remained under review by the committee at the end of 2014; interim sanctions were however imposed by the committee against total of eight vendors in one case

66. Three investigation reports were submitted to other UNDP bureaux in 2014, including one case submitted to the relevant regional bureau and the Vendor Review Committee, which imposed interim sanctions against a total of eight vendors.

67. In 2014, OAI also issued 16 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators. This represented a 267 per cent increase compared to 2013 when six management letters were issued. One request for a referral to national authorities was submitted to the Legal Support Office.

VIII. Coordination within the United Nations system

68. OAI continued to interact with Member States and counterparts to identify and share best practices, discuss matters of common interest, and promote cooperation with audit and investigation services in the United Nations system and other multi-lateral organizations. The Director of OAI was elected in September 2014 as Vice-Chair for the United Nations Representatives of Internal Audit Services.

69. OAI worked closely with internal and external stakeholders to develop capacity within UNDP for social and environmental compliance investigations. OAI developed the policy framework to guide the work of the new Social and Environmental Compliance Unit in OAI, along with investigation guidelines and standard operating procedures, which were issued following extensive internal and external consultations. OAI also developed related webpages that went live in December 2014; a registry mechanism for case intake; and outreach material. The unit became operational on 1 January 2015 and is the first social and environmental compliance review mechanism in the United Nations system.

IX. Advisory and other audit services

Advisory services

70. OAI continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, such as NGO/NIM and DIM audit processes and reporting, assessment for the harmonized approach to cash transfers, human resources processes and information and communication technology policies. OAI also regularly reviewed audit clauses in contribution agreements with donors, as well as cases of uncollectible staff receivable balances and advised the Bureau of Management (Office of Financial Resources Management) regarding write-offs and process improvements.

71. OAI facilitated control self-assessment workshops with country office Global Fund teams and facilitated training for NGO/NIM auditors. OAI also met occasionally with headquarters and regional bureaux management to share information on recurrent issues emanating from audit and investigation reports.

Audit and investigation services for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

72. Based on a service agreement dated 7 December 2013 with the Executive Director of UN-Women, OAI continued to provide internal audit and investigation services in 2014. This agreement will expire on 6 December 2015. OAI has a dedicated UN-Women Audit Unit, with four posts fully funded by UN-Women. The internal audit and investigation activities of OAI in this regard are reported separately to the Executive Board of UN-Women.

X. Overall conclusion

73. With the resources available in 2014, OAI was able to effectively carry out its mandate of providing internal audit and investigation services to UNDP. The collective results of the audits of headquarters units, corporate functions, country offices, Global Fund grants and DIM projects, as well as third-party audits of NGO/NIM projects, supplemented the other oversight mechanisms, from which the Administrator and the Executive Board derive assurance on the efficient use of UNDP resources and on the effectiveness and adequacy of governance, risk management and internal control systems. All offices concerned were responsive in implementing audit recommendations. During the year, OAI was able to close more investigation cases and issue more investigation reports.

74. The continuing support of the Executive Board, UNDP senior management, and the Audit Advisory Committee will enable OAI to continue to provide value added internal audit and investigation services that will contribute to the achievement of UNDP goals as defined in its strategic plan, 2014-2017.